Executive Summary

"Pay for Success" Feasibility Assessment for the Washington State Home Visiting Services Account

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About Third Sector Capital Partners, Inc.

Third Sector leads governments, high-performing nonprofits, and private funders in building evidence-based initiatives that address society's most persistent challenges. As experts in innovative public-private contracting and financing strategies, Third Sector is an architect and builder of the nation's most promising Pay for Success projects including those in Commonwealth of Massachusetts, Cuyahoga County, Ohio, and Santa Clara County, California. These projects are rewriting the book on how governments contract for social services: funding programs that work to measurably improve the lives of people most in need while saving taxpayer dollars. A 501(c)(3) nonprofit based in Boston and San Francisco, Third Sector is supported through philanthropic and government sources.

Third Sector is a proud grantee of the Corporation for National and Community Service's Social Innovation Fund. This feasibility report has been prepared as part of Third Sector's sub-recipient award to the Washington State Department of Early Learning and Thrive Washington.

Learn more at www.thirdsectorcap.org.

About the Institute for Child Success

Headquartered in Greenville, South Carolina, the Institute for Child Success (ICS) is an independent, nonpartisan, nonprofit, research and policy organization dedicated to the success of all young children. ICS pursues its mission by proposing smart public policies, grounded in research; advising governments, nonprofits, foundations, and other stakeholders on strategies to improve outcomes; sharing knowledge, convening stakeholders, embracing solutions, and accelerating impact, and by fostering the next generation of leaders.

ICS is a grantee of the Corporation for National and Community Service's Social Innovation Fund. Under this award, ICS selected the Washington State Department of Early Learning and Thrive Washington for technical assistance and worked in partnership with Third Sector Capital Partners to complete this feasibility report.

Learn more about Pay for Success work at ICS by visiting http://pfs.instituteforchildsuccess.org.

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Home Visiting in Washington State

Home visiting is a voluntary, relationship-based intervention that includes regular visits by a trained professional to a family's home when the mother is expecting and/or after she has given birth. Evidence from home visiting programs shows that when families receive this type of support, children are healthier and better prepared for school, parent-child bonds are stronger, and abuse and neglect are less likely[1].

In Washington state, approximately 8,500 families currently receive home visiting services. About 2,000 of those families, many of whom live in some of the state's most vulnerable communities, are in programs funded by the state's Home Visiting Services Account (HVSA)[2]. Since being created by the state Legislature in 2010, the HVSA has brought together state, federal, and private dollars to support a portfolio of high-quality proven and promising home visiting programs. The Washington State Department of Early Learning (DEL) and Thrive Washington (Thrive) jointly manage the HVSA.

Four functions of the HVSA:

- **Serve families**: The HVSA has grown from serving about 100 families in 2010 to more than 2,000 families in 2014.[3]
- **Ensure high quality**: The HVSA maintains and improves program quality by building capacity and focusing on high-quality implementation.
- **Centralize program support**: The HVSA provides individualized and targeted coaching and training of supervisors.
- **Improve community outcomes**: By offering a portfolio of programs, the HVSA meets diverse community needs across health, well-being, and child development domains. The HVSA currently reaches 22 of the state's 39 counties, with a focus on bringing home visiting to rural and tribal communities.

While the HVSA has expanded and other organizations also provide home visiting services in Washington, there is still a significant unmet need for a service that can change the trajectory of an entire family. To improve and potentially expand home visiting services, DEL and Thrive applied for technical assistance grants for a Pay for Success Feasibility Assessment of the HVSA.

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[1] http://homvee.acf.hhs.gov/outcomes.aspx

[2] While HVSA is an actual account, the term is used throughout the report to refer to the portfolio of home visiting services, not the account itself

[3] Home Visiting Scan, Sept 2014

Pay for Success Feasibility Assessment

The Pay for Success (PFS) Feasibility Assessment of Washington's Home Visiting Services Account (HVSA) was a collaborative effort initiated by the Department of Early Learning and Thrive Washington. The technical assistance provided for this assessment was led by Third Sector Capital Partners (Third Sector), with support from the Institute for Child Success (ICS). This work was made possible through a grant from the Corporation for National and Community Service's Social Innovation Fund.

Elements of Pay for Success

Performance-Based Contracting (PBC) is a type of contracting with:
  (1) A clear set of objectives and indicators
  (2) Systematic efforts to collect data on the progress of the selected indicators,
  (3) Consequences, either rewards or sanctions for the contractor, which are based on performance.[4]

Pay for Success (PFS)[5] is a form of performance-based contracting that strives to raise the bar on the three elements identified above.

In a PFS project, government and/or other "**end payers**" agree to pay for specific <u>outcomes</u> achieved by a **service provider(s)**. Before a PFS contract is implemented, **end payers** and **service providers** mutually agree to the specific terms and conditions of the project including outcomes, evaluation plans, and success payments. Once launched, **service providers** begin delivering services while an independent **evaluator** <u>rigorously assesses</u> the impact of the services; **end payers** make success payments only when outcomes are achieved.

Social Innovation Financing (SIF) is used in PFS to pay for the project while results are being measured and until success payments are made.

Outside **funders** – like philanthropic organizations, private financial institutions, and/or individual investors – provide the upfront funding for services and evaluation. Depending on the initial agreements made, success payments can be used to repay funders or recycled back into the project to provide more services. This mechanism allows **end payers** to withhold payment until results are measured, while also ensuring cost coverage for **service providers**.

As described above, performance-based contracting and social innovation financing are complementary but distinct elements of a Pay for Success project. This Feasibility Assessment reviews a spectrum of contracting and financing models that may be of interest in Washington.

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[4] http://www.who.int/management/resources/finances/Section2-3.pdf

[5] The term Pay for Success is utilized instead of the original name for this mechanism, Social Impact Bonds (or SIBs), because it better conveys how the process works

Benefits of Pay for Success Elements
Though not a "one size fits all" solution for the social sector, PFS offers a number of benefits to stakeholders – **end payers** are able to ensure their funds only go toward programs that are working (based on outcomes achieved), **service providers** can focus on achieving impact rather than fundraising for their services, and **funders** are able to help build government and provider capacity, enabling both parties to work together to drive better outcomes for vulnerable families.

Given this potential, Pay for Success has become a national movement with eleven projects launched in states across the country (California, Colorado, Connecticut, Illinois, Massachusetts, New York, North Carolina, Ohio, and Utah) and dozens more projects in development[6]. The eleven projects launched in the United States all utilize **performance-based contracts** and **social innovation finance**, however, the specifics of each project are vastly different. For instance, some projects are funded mostly by philanthropy, while others are funded mostly by private financial institutions.

Guiding Objectives of the HVSA PFS Feasibility Assessment
This PFS feasibility assessment was customized to fit DEL's and Thrive's needs. As a result, a variety of **performance-based contracting** frameworks were explored, including those that do and do not involve **social innovation financing** (see *End Payer* section of the full report). Additionally, it was important to leadership at DEL to only consider philanthropic **funding sources** that did not seek interest (see *Funder Development* section) and to consider how to build state-level data infrastructure for home visiting outcomes (see *Data Source* section).

Thus, the guiding objectives of the PFS feasibility assessment were to:
- Support a more focused and targeted approach for scaling home visiting by deeply assessing the counties and populations eligible for HVSA-funded programs (see *Target Population* section)
- Increase opportunities to integrate and align state data sets with the different home visiting models used in Washington in order to inform decision making (see *Data Source* section)
- Better understand the various contracting and financing possibilities for the HVSA (see *End Payer* and *Appropriations & Contracting* sections)
- Understand gaps in research and evaluation in home visiting (see *Evaluation Options* section)

Moving to a performance-based contracting model and/or funding an expansion of the HVSA are not dependent upon the launch of a PFS project, however this PFS feasibility assessment requested answers to many of the questions that would need to be addressed for either of those steps to occur. The next sections, *Summary Findings* and *Recommended Next Steps*, capture the high-level learnings from this assessment.

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[6] http://www.payforsuccess.org/provider-toolkit/pfs-projects

Summary Findings

This PFS Feasibility Assessment found that a significant investment in time and resources is required for the HVSA to move forward with a PFS project. Over the course of the last year, four work groups and two committees met regularly to identify the opportunities available for **performance-based contracting** and **social innovation financing** for the HVSA. The detail describing all of this work and how it leads to these findings is contained in the full feasibility report (Section IV, *PFS Feasibility Assessment Work Streams*). Key learnings include:

Washington state funds home visiting models through the HVSA that have been shown to improve outcomes in one or more of these areas: children's educational performance, rates of child abuse and neglect, maternal mental health, and the health of young children. These models meet the high standards of evidence required for social innovation financing.

The national leaders of the four home visiting models examined in this assessment are interested in increasing their organization's impact in Washington and are willing to be held accountable for their outcomes. Many of the local service providers implementing these models want to reach additional families and could build the capacity to expand under a performance-based contract.
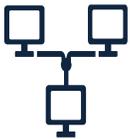
Data on families participating in home visiting services are stored in service providers' systems, while data on the health and education outcomes for these families are stored in different state agencies' systems. At this point in time, service provider data are not being linked with state agency data. To measure outcomes at the family level, data sharing agreements and complex data linkages would need to be implemented.

Leaders of state agencies consulted for this assessment have expressed strong interest in expanding the state's use of performance-based contracting for social services. Discussions with state legal experts confirmed that multi-year performance-based contracts are possible and can be developed.

The philanthropic community has been engaged throughout the feasibility study and could play a role in a potential performance-based project.

Given the strong programmatic infrastructure for home visiting, government commitment to performance-driven service delivery, and an interested philanthropic community, Washington could feasibly implement a Pay for Success project for home visiting in the coming years. The *Recommended Next Steps* section (below) lays out the action items needed to further this work in hopes of improving outcomes for vulnerable families in Washington.

Readiness Scale and Overview of Work Streams

A readiness level that assesses the feasibility for each work stream to move forward with implementing a PFS project is assigned below. The readiness level reflects the amount of time, funding, and groundwork the state will need to invest to develop and launch a PFS project for the HVSA. Further, the levels are intended to show the relative readiness of certain work streams against others. The selection of a readiness level was done by Third Sector and reviewed by DEL and Thrive leaders on the project management team. The Readiness Scale is as follows:

Not Yet Demonstrated	Possible	Promising	Strong

The Readiness Scale definitions are the following:

- **Not Yet Demonstrated**: Progress on the goals of the work stream was made, but not goals were not completed, due to challenges in data access and/or timing constraints of the feasibility assessment. Further work is required to assess readiness for this area.
- **Possible**: A significant amount of work is needed to implement a PFS project for this work stream.
- **Promising**: A moderate amount of work is needed to implement a PFS project for this work stream.
- **Strong**: A minimal amount of work is needed to implement a PFS project for this work stream.

While these definitions relate to a PFS project, as that is the focus of this assessment, they can be modified if a different type of performance-based project is pursued. The work stream summaries in the chart below relate to the two elements of PFS discussed above, performance-based contracting and social innovation financing.

Exhibit 1 presents an overview of the work stream areas assessed, the Readiness Scale level, and the major findings from the feasibility assessment of that work stream:

Exhibit 1: Summary Findings of Work Streams

Work Stream Summary	Readiness Scale	Summary Findings
Intervention ▪ Determine WA's operational landscape for home visiting ▪ Identify social, health and educational outcomes appropriate for PFS ▪ Assess the capacity of current home visiting providers to engage in PFS	*Strong*	• Service provider infrastructure for home visiting in Washington is impressive and can be leveraged to better link the intervention to outcomes • At least four of Washington's home visiting programs have sufficient evidence that they produce outcomes that could be used in a PFS contract • While only the Nurse-Family Partnership (NFP) home visiting program has capacity to expand under a performance-based contract now, it is possible for the other three program models explored in the study to build capacity to do performance-based contracting in the short term

Data Source ▪ Assess where outcomes data for HVSA are housed and how sources are accessed and used ▪ Chart a path forward for linking and tracking individual-level data	*Possible*	• Data on outcomes of interest are largely collected by various state agencies but are not currently cross-linked. Service providers are largely not collecting data on outcomes of interest, but are collecting data on who they serve and fidelity measures • Significant data systems infrastructure is required to link data across state agencies and with service provider systems. Building this infrastructure is a significant task requiring broad consensus • An integrated data repository for early childhood outcomes data could benefit several agencies and initiate a continuous feedback loop between state agencies and service providers
Target Population ▪ Identify unmet need population and refine based on geography and high risk indicators ▪ Estimate the impact that the HVSA is having on outcomes of interest	*Not Yet Demonstrated*	• Individual-level data are required to do an in-depth analysis of the target population. These data records were not accessible for this study, however they are available • There is a large population that is eligible and could benefit from home visiting services in each county based on eligibility standards. To further refine this unmet need, DEL and Thrive could explore indicators of high risk (e.g., race / ethnicity) through committing additional resources (time and money) for data analyses (e.g., predictive or correlative) • Baselines for performance on outcome measures will require linking of individual-level home visiting participant data with administrative data
End Payer Identify and engage key decision-makers within Washington's government to explore options for a performance-based project, and the source of funds	*Possible*	• Leadership in key agencies are very interested in performance-based contracts for social services and will need to determine if government funding for a project can be secured and if philanthropic funding is needed • This PFS feasibility assessment served as a beacon for stakeholders to understand and develop concrete pathways to additional options – beyond the traditional PFS model – for performance-based contracting
Appropriations & Contracting Analysis of the legality of a PFS-style contract and funding mechanism	*Promising*	• A performance-based project would most likely involve appropriations for success payments over several biennia, using the HVSA as the holding mechanism for success payments • Performance-based contracts that cross biennia are possible in the state if they have "wind-down" clauses (i.e., a plan for if funds are not appropriated as expected by future legislatures)
Funder Development Engage funder community through formal gatherings and on-going communications and relationship building	*Promising*	• There are local funders that have shown initial interest in supporting a potential project. DEL and Thrive can work with partners to host an informative event to share the findings of the feasibility assessment with the philanthropic community • As DEL and Thrive move forward and identify more concrete next steps, continued engagement with prospective funders can help determine interest in financially supporting these efforts
Evaluation Options Develop preliminary evaluation options for a PFS project	*Promising*	• Nationally and within Washington there are several home visiting evaluations underway that examine many of the outcomes prioritized in this PFS feasibility assessment • DEL and Thrive can leverage the lessons from these evaluations to improve future evaluations of the impact of services provided by the HVSA • At this time, it is not possible to determine the appropriate evaluation design for a performance-based contract. Many of

		the decisions on recommended next steps from other sections of the report will inform the appropriate design (improvements to data linking, refinement of target population, etc.)

Key Limitations of PFS Feasibility Assessment

It is important to highlight that certain data-related goals prioritized by the state were not possible to complete during the assessment timeframe due to the current state of home visiting data and systems, as well as the inherent difficulty in accessing individual-level data. These goals include refining the state's unmet need for home visiting and estimating the impact home visiting services have had on outcomes of interest.

Recommended Next Steps

Ultimately, a significant investment in time and resources is required for Washington state to move forward with a PFS project (or another type of performance-based contracting project) for the HVSA. While each work stream presents a few recommended next steps, the most critical ones are highlighted below:

- **Decide whether to move forward with a performance-based project for the HVSA.** If yes, develop a proposal for the Legislature to consider for the 2018-19 biennium.

- **Establish a shared vision for improved data sharing, and increase data linkages across state agencies**. Identify collaboration opportunities with existing research departments housed within state agencies that link early childhood health and education outcomes data, and/or academic institutions.

- **Create a cross-agency performance-based contracts team** to design a template for contracts of this nature (using the HVSA as an example) for use by different departments providing social services.

- **Solidify criteria to define highest risk population** (predictive and descriptive characteristics) to determine for whom and where incremental expansion of home visiting services should be concentrated.

- **Continue cultivating philanthropic funders** who have exhibited strong interest in supporting a potential project. Interest may be centered on home visiting, data investments, outcomes-based contracting, or another aspect of a potential project.

The PFS Feasibility Assessment has included conversations with dozens of leaders in Washington state from the legislature, state agencies, early childhood advocacy groups, home visiting service providers, various non-profits and philanthropic foundations. While these leaders had different motivations and objectives for participating in conversations, they can continue to be leveraged for thought leadership as DEL and Thrive decide whether to move forward with any of these recommendations. There appears to be great interest in having a dialogue about how to improve the efficiency and effectiveness of government-funded social services through contracting and

financing strategies. These conversations may expand beyond the HVSA to interventions targeting other vulnerable populations in Washington state as well.

For more detail on the **Summary Findings** or **Recommended Next Steps**, please see the full PFS Feasibility Assessment Report.

Reflections on the PFS Feasibility Assessment

Ross Hunter, Director, Department of Early Learning (DEL)

"This Feasibility Assessment allowed DEL and Thrive to deeply explore our interests for expanding home visiting services through a rigorous process of mapping out the landscape of home visiting, program-outcome data, and financial models. As a former chair of the state House Appropriations Committee, I remain skeptical of borrowing money from non-governmental entities, obligating future legislatures for current home visiting expenditures. I am encouraged, however, by the conversations this study has opened up about better use of data and evaluation of our home visiting system as we look forward to strategic expansion."

Sam Whiting, President & CEO, Thrive Washington (Thrive)

"Our state can be incredibly proud of the work we've done over the past five years to expand home visiting in our state's most vulnerable communities, but we always look for ways we can do better. This Feasibility Assessment has helped Thrive and DEL have different and deeper conversations with our current partners — and many new partners, especially in philanthropy and business — about how we can achieve better outcomes for vulnerable parents and babies."

Caroline Whistler, Co-Founder & Co-President, Third Sector Capital Partners

"Our work in Washington state has reinforced the importance of collaborative partnerships and a deliberate, data-driven approach to understanding the need and opportunity to increase the impact of public resources. We are pleased that the multi-stakeholder engagement has yielded a broader interest in performance-based contracting across the state, and that this study has provided further strength to the foundation of future evidence-based policy in Washington. Now the challenge will be to maintain the momentum and accelerate the transition to outcomes-driven contracting moving forward!"

Joe Waters, Executive Vice President, Institute for Child Success

"Exploring Pay for Success as a potential funding mechanism for Washington state's Home Visiting Services Account has pushed ICS to consider broader and more impactful uses of performance-based financing. Potentially funding multiple home visiting program models based on outcomes would be a groundbreaking advancement in improving outcomes for children. Washington state has demonstrated bold leadership by its commitment to improve the lives of young children using innovative financing."

David Wilkinson, Director, Office of Social Innovation, The White House

"It was energizing to take part in the Washington State Pay for Success Symposium. There is clearly momentum in the state for data-driven decision making for social programs. It was impressive to see representatives from so many types of organizations, and all were interested in getting better outcomes and asking questions together."